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From: CN=Roger Allan/OU=DC/O=USEPA/C=US
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BP Earnings Fall on Lower Production and Higher Costs (New York Times)
 ENFORCEMENT: Former Pa. Gov. Rendell pressed EPA in Range pollution case, emails show
 (EnergyWire)
 Missouri lawmaker draws support for drone spy ban (Kansas City Star)
 Oil spill still a drag on BP's earnings (Houston Chronicle)

BP Earnings Fall on Lower Production and Higher Costs (New York Times)

Outlet Full Name: New York Times - Online, The
 News Text: LONDON — BP on Tuesday reported lower profits for the fourth quarter, a reflection of the asset sales the British oil giant made in the wake of the Gulf of Mexico disaster which have left it a smaller company.

For the three months through December, BP posted operating earnings of \$4 billion, adjusted for one-time items and inventory changes, down from \$5 billion a year earlier but ahead of analysts' average forecast of \$3.3 billion.

Net income for the full year was \$17.6 billion, down 19 percent from 2011.

The company began an extensive restructuring after the April 2010 explosion on the Deepwater Horizon rig that killed 11 people and unleashed a massive oil spill. Among the asset sales, BP agreed on Oct. 22 to sell its 50 percent stake in its Russian joint venture, TNK-BP, to the state-controlled Russian oil company Rosneft for about \$27 billion in cash and shares.

As a result, BP's fourth-quarter results included only 21 days of earnings from TNK-BP, which had provided about 25 percent of BP's output, or about 1 million barrels per day. BP said its share of TNK-BP's earnings in the quarter was \$220 million, compared to \$1 billion in the fourth quarter of 2011.

Robert W. Dudley, who succeeded Tony Hayward as chief executive in the summer of 2010, has been forced to sell assets to raise cash to pay penalties and damages resulting from the spill. But the process has given him the opportunity to try to create a leaner, more profitable company. Including the TNK-BP

sale, BP has agreed to roughly \$65 billion in asset sales since 2010.

Mr. Dudley told reporters Tuesday that the assets sales “have significantly increased the quality of the portfolio while reducing its age and complexity.” He said BP was now able to bring a tighter focus to a smaller set of oil and gas resources, including reserves in the Gulf of Mexico, in the deep waters off the coast of Angola, and in the more remote waters north of Scotland.

But BP acknowledged that the asset sales have a downside. For example, output — which is often a proxy for an oil company's profitability — is likely to be down again in 2013 after declining 6 percent in 2012, according to the chief financial officer, Brian Gilvary.

“The impacts of the divestments will be increasingly evident as we move through 2013,” Mr. Gilvary said, predicting that this year's asset sales would reduce output by about 150,000 barrels per day.

Mr. Gilvary said the majority of the decline “relates to higher-margin areas in the Gulf of Mexico and the North Sea.” In other words, BP may be streamlining but it has also lost some profitable assets, like the group of oil fields in the Gulf of Mexico that it sold to Plains Exploration for \$5.6 billion in September.

“Per barrel profitability is likely to remain below historic levels this year,” Bernstein Research wrote in a note to clients after BP released its results.

Mr. Gilvary said that, excluding TNK-BP, the oil and gas fields the company has sold would account for about 500,000 barrels per day in production and about \$5 billion in pretax earnings.

But BP's production has actually fallen by about 700,000 barrels per day from 2010. The additional decline is largely due to a steep dropoff in production in the Gulf of Mexico, the result of a partial moratorium on oil company operations in the gulf that was imposed after the 2010 disaster and has since been lifted.

BP still produces about 2.3 million barrels per day, but that is much less than its traditional rivals, Exxon Mobil, at about 4.2 million barrels per day, and Royal Dutch Shell, at about 3.4 million barrels.

Mr. Dudley said he thought the 2.2 million barrels per day BP was likely to produce in 2013 would be “the low point for us.” He said the company brought 5 new oil and gas projects online in 2012 and that it was on track to have started up a total of 15 between 2011 and the end of 2014.

Stuart Joyner, an analyst at Investec in London, said it would “take a while” for Mr. Dudley's strategy to work. BP is “selling assets and investing in new assets,” and the new acquisitions will not pay off immediately, Mr. Joyner said.

The effects of the gulf spill continue to haunt the company in other ways. In November, the U.S. Environmental Protection Agency barred BP from receiving new federal government contracts. As a result, Mr. Dudley said, BP did not participate in the most recent auction of leases in the Gulf of Mexico and might not bid in the next. But he said that BP, the largest leaseholder in the region, had such a large position that it was questionable whether it would want to add more acreage there.

BP also took \$4.1 billion in additional write-offs for the gulf spill in the quarter, bringing total provisions to \$42.2 billion. The new write-offs are largely a result of the company's settlement of criminal charges brought by the U.S. Department of Justice in connection with the spill.

Uncertainty over the ultimate cost of the spill lingers. BP still faces a civil trial in New Orleans in late February that could result in penalties of more than \$20 billion, according to analysts.

The company's shares remain down about 30 percent from their price before the spill, though they have risen 9 percent this year. They rose slightly in London on Tuesday.

Last month, militants attacked an Algerian gas field part-owned by BP. Four BP employees were killed in the attack on the In Amenas gas plant.

Mr. Dudley said BP “remains committed to operating in Algeria” but the company was “in mourning” for the people “murdered on what should have been an ordinary day of work”

In Amenas produced the equivalent of 17 thousand barrels per day, making it a relatively small part of BP's global portfolio.

ENFORCEMENT: Former Pa. Gov. Rendell pressed EPA in Range pollution case, emails show (EnergyWire)

Outlet Full Name: EnergyWire

News Text: Former Pennsylvania Gov. Ed Rendell interceded with then-U.S. EPA Administrator Lisa Jackson on behalf of Range Resources Corp. to settle the oil and gas company's high-profile Texas water contamination case, emails obtained by EnergyWire show.

An EPA attorney wrote that Rendell, acting as a "spokesman for Range," met with Jackson in 2011 and "proposed certain terms to the administrator." But the case didn't settle for more than a year after that.

When EPA and Justice Department officials in Washington, D.C., dropped the case, Range did not agree to do testing sought by the Texas-based EPA officials. They had wanted Range to test whether natural gas might be seeping into homes from the soil, but that was not part of the agreement.

"Range should ensure that it is not making an explosion hazard at the homes," Al Armendariz, the Dallas-based EPA regional administrator who brought the case, wrote during negotiations with Range.

The messages were included in more than 1,000 pages of emails obtained by EnergyWire in a Freedom of Information Act request from EPA Region 6. They offer behind-the-scenes insights in a case that has come to be seen as a major retreat by the agency amid aggressive industry push-back and support for natural gas drilling by President Obama.

The emails, redacted in significant places, do not give any answer as to why settlement discussions began in the first place. But they deliver a counterpoint, never publicly offered by the agency itself, to the theory that EPA caved in because it had a weak case.

For example, EPA officials grumbled privately in emails the day the case was withdrawn because state oil and gas officials at the Texas Railroad Commission claimed victory over EPA. Commissioner David Porter issued a news release on the withdrawal that accused Armendariz of having engaged in "fear-mongering," among other things.

"Hang in there Al. This [is] just a rant from someone with a myopic view," wrote Deputy Assistant Administrator Steven Chester, who had played a key role in the negotiations.

"Al, this is shameful," wrote EPA Senior Policy Counsel Bob Sussman. "I'm sorry you must endure this."

But things went from bad to worse for Armendariz. Less than a month later, Sen. James Inhofe (R-Okla.), an outspoken supporter of the oil and gas industry and a critic of Armendariz, released a two-year-old video of Armendariz comparing his enforcement strategy to Romans who would "crucify" random villagers in retaliation for resistance. Armendariz resigned within days. He now works for the Sierra Club in Texas.

First hints of settlement

Armendariz brought the high-profile case in December 2010 as the Dallas-based director for EPA's Region 6, which includes Texas and surrounding states.

His emergency order charged that Range's shale gas wells were leaking methane gas into two homes in the Silverado subdivision in Parker County, just west of Fort Worth. It also accused the Texas Railroad Commission, which regulates oil and gas but not trains, of failing to protect the homeowners in the neighborhood.

Range denied the accusations then and denies them now. On Monday, Range spokesman Matt Pitzarella stressed that EPA headquarters officials didn't just settle the case, they abandoned it.

"We're pleased that once EPA headquarters became engaged and they reviewed the facts and science they decided to not settle the case, but to fully withdraw their order," Pitzarella said. "This is consistent with state regulators who also determined Range to not cause or contribute to a long-standing, well-documented matter of naturally occurring methane."

The Railroad Commission exonerated Range after a January 2011 hearing that EPA and the homeowners declined to attend.

The first hints of settlement came about two months later, apparently arising out of a discussion between Rendell and EPA's

Jackson. But there had been some confusion. A Justice Department lawyer assigned to the Range case had originally said the politician involved was Rep. Charles Rangel (D-N.Y.).

But Scott McDonald, chief of the Water Enforcement Branch in EPA's Office of Regional Counsel, told Armendariz that Rendell had "proposed certain terms to the Administrator" and said he was acting as "a spokesman for Range."

Rendell, who has also served as chairman of the Democratic National Committee, has not previously been associated with Range. Republican former Pennsylvania Gov. Tom Ridge worked for the Marcellus Shale Coalition, an industry group, during 2010 and 2011. An aide to Rendell said he was on vacation and unavailable for comment.

Pitzarella wouldn't confirm any relationship with Rendell and said he was definitely never hired by the company.

"I don't know the extent of the governor's involvement in energy-related matters, but he never functioned as a spokesperson of Range," Pitzarella said.

Work begins

The first indication of active work on a settlement in the Region 6 emails came in October 2011, with the case heading toward its one-year anniversary. Armendariz sent an email to Region 6 Enforcement Director John Blevins.

"Since Range has approached the agency with a thought for improved relationship, you should re-examine our order," Armendariz wrote. He asked Blevins to look at which provisions Range had complied with, which ones it hadn't and which ones EPA should stand firm on and not negotiate.

The discussions picked up rapidly as the Christmas holidays approached. Cynthia Giles, the assistant administrator for EPA's Office of Enforcement and Compliance Assurance, was prodding the negotiations forward.

On Dec. 20, 2011, Andrew Stewart, chief of the litigation and audit policy branch in Washington, said Range had been calling Giles' office to ask about the status of settlement discussions. He said Giles wanted the agency "to explore settlement with the company over the next few weeks," and he had been asked to develop proposed settlement terms.

As officials in Dallas hashed out their response, Blevins pushed for soil-gas sampling near the well to see if gas was rising into homes from the soil. If high levels of methane were found inside homes, Range would have to pay to have the homes properly vented.

The focus on soil-gas testing also relates to another frequent criticism of Armendariz -- that he fretted publicly about the possibility of the landowners' houses exploding, even though they had stopped using the water wells in question. If methane was coming up from the soil into the homes, it could accumulate and cause an explosion.

Blevins also wanted Range to pay to extend a public water system to the homes in the subdivision. Homeowners would pay the monthly water bill but would not need to use a well.

Armendariz wanted Range to deliver water to the residents for another six months while more data was collected. In suggestions to regional staffers negotiating with Washington EPA officials, he said the threat of a penalty should remain on the table if testing showed that Range did contaminate the aquifer.

Armendariz also said Range's test results should be posted publicly on the Internet. They weren't. EnergyWire got them several months after filing a FOIA request (EnergyWire, Jan. 15).

On Dec. 27, 2011, Armendariz outlined a position to take to Washington officials. His "least preferable" option included settling without requiring Range to provide water. But EPA would reserve the right to go after Range again with penalties if testing showed the company had contaminated the aquifer.

To the public, the case was dormant. The Texas Railroad Commission had weighed in nearly a year before, but EPA was still pursuing the case in federal court. Elements of the case were also in federal appeals court.

But discussions continued.

On March 15, 2012, Armendariz was traveling but was asked by Jackson's office to take a call from the then-administrator to discuss the Range case.

On March 21, 2012, the Supreme Court took a broad swipe at EPA's enforcement authority in a Clean Water Act matter commonly known as the Sackett case. Some have attributed EPA's decision to bail out of the Range case to its loss in Sackett.

Days after that, and a week before the case was dropped, Armendariz urged the EPA attorneys in Washington to make Range dial back its aggressive tactics in related state court fights. It appears to be a reference to Range's decision to subpoena Sharon Wilson, an Earthworks activist and blogger who posted items about the case.

"I would suggest continuing to bring up this issue during upcoming conversations with Range, highlighting the need for them to make this happen," Armendariz wrote.

But seven weeks after EPA dropped the case, Range sued one of the landowners, Steve Lipsky, in connection with a video posted on YouTube of flames shooting from a hose connected to his well (EnergyWire, May 21, 2012).

EPA announced its decision to drop the case on a Friday, March 30, 2012. In statements, EPA and the Justice Department said they wanted to shift away from litigation to a "joint effort" involving more testing. Concurrently, Range agreed to do groundwater testing, although it was not made a condition of dismissing the case.

In the weeks before the case was withdrawn, EPA had also agreed to retest groundwater in Pavillion, Wyo., that it had deemed contaminated with hydraulic fracturing fluid and announced that its high-profile intervention in Dimock, Pa., had yielded benign results. The three-pronged retreat was a dramatic turn away from what had been an assertive posture in shale drilling cases.

But the case didn't end there. Almost a month later, Inhofe circulated the "crucify" video. At the same time, the senator sent a six-page letter to Jackson, demanding details about the case. Region 6 was assigned the task of answering. With an air of finality, Armendariz told his top staffers to get to work answering the questions.

"There is no higher priority right now than getting started on this letter," Armendariz wrote. "Thanks for all your work. Sorry for the mess."

Three days later, on April 29, he resigned.

Missouri lawmaker draws support for drone spy ban (Kansas City Star)

Outlet Full Name: Kansas City Star - Online
News Text: Read more Breaking News February 5

A Missouri proposal to ban spy-in-sky drones is drawing support from agricultural groups, a family lobbyist and the American Civil Liberties Union.

A House committee heard testimony Tuesday on legislation by Rep. Casey Guernsey that would outlaw the use of unmanned aircraft to conduct surveillance on individuals or property. The bill would grant an exception only for law enforcement agencies that obtain a warrant.

Guernsey, a Republican from Bethany, says his measure was prompted by concerns over an Environmental Protection Agency initiative that used small airplanes to look for pollution problems at cattle farms in Iowa and Nebraska. But Guernsey's bill would not prohibit the EPA flights because they were not conducted by drone aircraft.

Bill supporters said they view drone surveillance aircraft as an invasion of privacy rights.

Oil spill still a drag on BP's earnings (Houston Chronicle)

Outlet Full Name: Houston Chronicle - Online
News Text: BP's oil production is being pinched by the company's decision to shed billions of dollars in assets to refocus its portfolio and pay for its Gulf of Mexico oil spill liabilities.

And those liabilities continue to drive higher costs for the British oil giant nearly three years after the disaster.

Both factors were key reasons why the London-based company reported Tuesday a 79 percent drop in fourth-quarter profit despite a small increase in total revenue. BP also warned that 2013 production will be lower than 2012.

According to the company, assets sold off since 2010 equate to about \$5 billion in pre-tax earnings that are now gone.

"That \$5 billion in lost earnings power is real and won't come back without a lot of investment," Morningstar analyst Stephen Simko said.

BP reported the results as it faces business and legal challenges and a renewed focus on worker safety following a deadly terrorist attack last month at a natural gas facility in Algeria that BP jointly operates. Four BP employees and five Statoil employees were among the people killed.

"BP is a company that has been tested to the utmost," CEO Bob Dudley said during a conference call with analysts and investors.

He said BP is determined to rebound and he believes the company has the foundation for long-term growth.

The company also plans to continue spending lots of money to expand its business - \$24 billion to \$25 billion in capital expenditures is budgeted for 2013.

Dividend retained

And BP still has money to reward shareholders. It announced a quarterly dividend of 9 cents a share, to be paid in March.

Investors focused on the positives, including higher total revenue in the quarter. They drove BP shares up 59 cents to close at \$44.20 in New York Stock Exchange trading.

In the short term, however, the road continues to be bumpy.

BP said that from October to December it earned \$1.62 billion, compared with a profit of \$7.69 billion a year earlier.

Production falls

Revenue in the quarter totaled \$98.86 billion, compared with \$96.34 billion a year earlier.

For all of 2012, BP reported a profit of \$11.58 billion, compared with \$25.70 billion in 2011. Twelve-month revenue came to \$383.57 billion, compared with \$386.46 billion in 2011.

BP also reported production for the quarter fell 7.1 percent to 2.29 million barrels of oil equivalent per day. The lower production is due partly to the big divestments that BP has been making, said the chief financial officer, Brian Gilvary.

BP has effectively reached its goal of divesting \$38 billion in assets a year earlier than planned, officials said. While that's cash in BP's pocket, not having the underlying assets anymore is a drain on its business.

Gilvary said 2013 reported production relative to 2012 is expected to be around 15,000 barrels of oil equivalent per day lower.

The fourth-quarter results included a \$4.1 billion charge relating to costs associated with the 2010 oil spill. The figure includes the company's settlement of criminal charges that it reached with the U.S. Justice Department. Also during the fourth quarter, BP made its final payment to a \$20 billion trust fund that it set up to compensate victims of the spill. At the end of 2012, the cash balance in the fund totaled \$10.5 billion, with the other \$9.5 billion paid out. A settlement with plaintiffs' lawyers, under which BP estimates it will pay out \$7.8 billion, will be paid from the fund.

BP still faces fallout and uncertainty from the oil spill. Because of it, for example, BP was ineligible for new contracts worth up to \$1.9 billion to provide fuel to the federal government this year. The Environmental Protection Agency suspended BP from new government contracts in November after prosecutors socked BP with criminal charges, including a Clean Water Act violation, related to the spill.

More fines likely

While it has resolved the criminal charges, it still is working to lift the suspension and it also faces the prospect of having to pay billions of dollars more in civil fines related to the amount of oil that spilled.

The company said Tuesday that it is in ongoing settlement talks with the Justice Department and other federal agencies about the civil fines, but it can't be assured it will reach an agreement. A civil trial over the oil spill is scheduled to begin Feb. 25 in New Orleans.

As for the government contract suspension, Dudley said the company, the largest leaseholder in the Gulf, has not yet been told it will be barred from bidding during a March lease sale involving the central Gulf of Mexico.

"If we don't, it's OK," Dudley said.